COMPTROLLER

AUG   1 2003

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed is the Semi-Annual Report to the congressional Defense committees regarding the status of the Department of Defense (DoD) Business Management Modernization Program. This report is required by Senate Report 107-213 to the fiscal year (FY) 2003 Defense Appropriation Act (Public Law 107-248). The DoD status report includes:

- Measures of Success on Meeting System Modification and Replacement Schedules,
- Obligation and Expenditures Data, and
- Contractual Progress and Performance Information.

Over the past year, the Business Management Modernization Program has accomplished many objectives. The Department delivered the initial DoD Business Enterprise Architecture (BEA) and the Transition Plan on May 1, 2003, as required by the FY 2003 Defense Authorization Act (P.L. 107-314, Section 1004). The BEA and the Transition Plan were delivered on schedule and under budget.

The BEA and Transition Plan provide the foundation for transforming the Department's business operations and systems. The next steps in business transformation include the extensive reengineering of the Department's major business processes. I look forward to working with you as we continue to improve DoD's financial management operations.

Sincerely,

Dov S. Zakheim

Enclosure:
As stated

cc: The Honorable Ike Skelton
     Ranking Member

Semi-annual Report

to the

Congressional Defense Committees

Status of the Department of Defense Business Management Modernization Program

July 31, 2003

Office of the Under Secretary of Defense
(Comptroller)

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Introduction

The Department of Defense (DoD) is committed to transforming its business and financial management processes and systems. Our strategy combines building a technologically advanced infrastructure with an assault on the inefficient stovepipe processes that hinder providing outstanding business support to our combat forces.

The Department has made significant progress towards fulfilling the Secretary's commitment to transform business and financial management – yet much work remains. The Department's architecture is the largest, most complex, and most pervasive business enterprise architecture developed to date, in either the public or private sector, anywhere in the world. The Business Enterprise Architecture (BEA) applies not only to financial management, but also to the enormous number and types of transactions that support the Department's budget formulation, acquisition, inventory management, logistics, personnel, and property management businesses.

The initial architecture and the transition plan that defines the steps the Department must take to move from our current processes and systems to the step of reengineering our processes and then implementing the new processes and related systems were completed April 30, 2003. This marks a significant milestone in transforming the DoD's business operations.

During the next phase of the transformation, the Department will focus on business process reengineering which is expected to run about ten years. Concurrently, the Department will continue to maintain and extend the architecture and transition plan. The Department's Principal Staff Assistants to the Secretary of Defense and the Components will work closely together to manage the reduction of the number of current systems and to implement the future technical and process solutions.

A number of parallel efforts will take place in the early stages of the next phase of implementation (2003-2004). They are:

- Reengineering of selected business processes,
- Initial design and implementation of the underlying technical infrastructure, and
- Implementation of key enterprise architecture foundation segments

In the longer term, the Department will continue to reengineer business processes incrementally and implement these new business solutions. These activities will result in the elimination of our inefficient systems by replacing them with systems that are compliant with the architecture.

DoD's Business Transformation Strategy and Results

The Fiscal Year 2003 Senate Appropriation Bill for the Department of Defense directs the Secretary of Defense to provide the congressional defense committees with semi-annual status reports on the Department's Business Management Modernization Program. The Bill directs that these reports "should include, at a minimum, measures of success on meeting system modification and replacement schedules, obligation and expenditures data, and appropriate contractual progress and performance information." The reports are to be submitted on January 31 and July 31 each year.

The Department delivered the initial version of a Department-wide Business Enterprise Architecture (BEA) on schedule and under budget on April 30, 2003. It is the first of many steps towards creating a financial and business infrastructure that will transform the Department's business processes and improve financial management.

We have developed a transition plan that defines the steps the Department must complete to reengineer the current business processes and to implement the new processes and related systems. We have also established a management process that divides the responsibility of reengineering the business processes and implementing the new processes and related systems among seven Principal Staff Assistants to the Secretary of Defense. The creation of the architecture, the transition plan, and the management process were accomplished in cooperation with the Defense Components and Principal Staff Assistants to the Secretary of Defense.

Overhauling the Department's business and financial management processes and systems represents a major management challenge that goes far beyond financial accounting. Transformation affects the very heart and fiber of the Department's business operations and management culture. The Secretary and his senior leaders are committed to changing that culture and thus improving the way in which the Department conducts business.

DoD's Transformation Strategy

In his confirmation hearing, the Secretary of Defense made a commitment to remedy the well-documented and much-publicized financial and business problems in the Department. Subsequently, the Secretary enlisted some of the best financial experts in industry and government to develop a strategy to address those problems. Based on their recommendations, the Secretary instituted an enterprise-wide transformation program to achieve the following goals for his business managers:

- Reliable and timely financial and management information
- Integrated business processes
- Standardized and interoperable systems

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Our strategy follows the recommendations of those financial experts and attempts to achieve these goals through the following actions:

1. Build a DoD-wide architecture and transition plan that prescribe the implementation and use of standard business and financial rules,

2. Employ a DoD-wide oversight process, consisting of DoD's senior leadership, to implement the architecture and to monitor Departmental spending, and

3. Deploy the architecture in increments by reengineering DoD's current inefficient business processes and installing system solutions that implement leading business practices. Some of these leading business practices include vendor-managed inventory and a standard accounting code structure for the entire Department.

Full implementation of this strategy will allow the Department to comply with Federal accounting and financial management reporting requirements. It also provides an approach that leads to the integration of budget, accounting, and all other business information and systems. Through this strategy, the DoD will have in place the robust framework necessary to evaluate future business and finance-related information technology (IT) and process investments.

Transformation Strategy Results

The Department has implemented a business line, or Domain, governance approach to managing and overseeing business transformation. We have identified seven key departmental Domains:

1. Acquisition – Under Secretary of Defense (Acquisition, Technology and Logistics) (USD(AT&L))
2. Finance & Accounting – Under Secretary of Defense (Comptroller) (USD(C))
3. Human Resource Management – Under Secretary of Defense (Personnel and Readiness) (USD(P&R))
4. Logistics – USD(AT&L)
5. Strategic, Planning & Budgeting – USD(C)
6. Installations & Environment – USD(AT&L)
7. Technical Infrastructure – Assistant Secretary of Defense (Networks and Information Integration/DoD Chief Information Officer) (ASD(NII)/DoD CIO)

The Domain Owners' responsibilities include, but are not limited to, the following activities within their Domains:

- Leading business transformation
- Assigning Lead Agents for execution
- Establishing and maintaining a Domain governance process to ensure representation of the Services, Defense Agencies, DoD Field Activities, and appropriate Federal agencies

- Performing system reviews and approving initiative funding as part of portfolio management
- Assisting in the development of the architecture
- Enforcing compliance with the enterprise architecture and transition plan
- Guiding execution activities
- Representing the Domain on cross-Domain issues

The Business Enterprise Architecture reflects a new business model for the Department. This business model includes system design criteria that integrate and align business policies, including federal accounting, financial management and reporting requirements, and enhanced system capabilities. The architecture also includes a Data Management Strategy that describes the process for allowing single source data entry. This one-time data capture allows for consistent tracking of information flows for both management and auditors – and thus points the way toward the production of accurate, reliable, and timely information for management purposes. The Business Management Modernization Program (BMMP) Executive Committee, composed of the Domain Owners and other senior Service representatives, approved the initial BEA and Transition Plan on May 8, 2003.

The BEA Transition Plan serves as a guide that charts the course between the DoD's present and future architectures. The Department will use the transition plan to move the DoD to the future business environment in an efficient and timely manner, while minimizing the impact of the transition on current operations, organizations, and personnel. The plan serves as the basis for the development of future implementation plans by those who will manage and implement the Business Enterprise Architecture.

Next Steps

We are now entering another challenging phase of the program—the transition from our current inefficient business processes and redundant systems environment to the future architecture. Our approach will focus on reengineering our business processes and then selecting business system solutions to implement the new methods and processes. We will eliminate from our current inventory of systems those that have redundant capability and those that are not compliant with the BEA. This reengineering effort will be done incrementally. The first increment will begin implementing the architecture and its key business processes and technical standards. Examples of the processes and standards in the first increment include the United States Standard General Ledger, a standard accounting code structure, data standards, data storage and retrieval, and the integration of logistics business processes with the related acquisition and accounting processes.

Measures of Success on Meeting System Modification and Replacement Schedules

As required by Public Law 107-314, Section 1004, paragraph (c)(2), the Department organized a comprehensive review of its business systems. The Under Secretary of Defense (Comptroller) (USD(C)), in a letter dated January 10, 2003, asked that Components validate the inventory of their business systems, provide costs to operate and maintain these systems, and identify their legacy systems and sunset dates. Results of this data call were reviewed by Components, the Office of Assistant Secretary of Defense for Networks and Information Integration (NII) and the OUSD(C) Business Modernization and Systems Integration Office (BMSI). This review was completed on April 25, 2003.

The DoD business systems inventory includes 2,274 systems. The complete list of system retirement dates is not known at this time because the technical solutions to implement the architecture have not been determined. As soon as the technical solutions are identified, the Components will be required to develop plans for each affected legacy system. The retirement plans will identify each legacy system to be eliminated and the corresponding elimination date. We will report each Component's progress and their timeliness in eliminating legacy systems.

In an effort to control IT investments, the Components are required to submit nonmission critical system change requests to the Under Secretary of Defense (Comptroller) for approval. Additionally, programs requesting authority to proceed into the next DoD life cycle management phase, and system improvements in excess of $1 million in accordance with Public Law 107-314, Section 1004, paragraph (c)(2), are being reviewed. These requests are evaluated by the Business Modernization and Systems Integration office for compliance with the architecture and for a sound business case.

As of June 2003, the Business Modernization and Systems Integration staff received requests to review 85 systems categorized as follows:

Category	System Count
Approved for operation or further development	34
Disapproved for operation or further development	30
Currently under review	21
TOTAL	85

As we move forward, we recognize the need to manage and control our ongoing and planned business systems' investments. Our approach to do this is defined in the draft DoD Directive, "Information Technology (IT) Capital Planing and Investment Control (CPIC) Portfolio Management," and will be developed in the DoD Instruction, "Operation of the IT CPIC Portfolio Management System." We will employ our transformation governance structure to implement the investment review process.

Obligation and Expenditures Data

The following table provides the obligation and expenditure data for the FY 2002/2003 RDT&E, FY 2003/2004 RDT&E, and FY 2003 O&M appropriations:

As of June 30, 2003

	Funding Appropriated	Obligations	Disbursements
FY 2002/2003			
RDT&E – DW	90,917,000 *	85,116,936	53,721,469
FY 2003/2004			
RDT&E – DW	65,889,000 **	0	0
FY 2003			
O&M –DW	25,000,000 ***	12,252,181	274,000

* $100.0M less general reductions of $5.7M and $3.4M reprogramming.
** $96.3M less general reductions of $5.4M and reprogramming to O&M of $25.0M.
*** $0.0M plus reprogramming from RDT&E of $25M.

The FY 2002/2003 research and development funds supported the initial delivery of the architecture, transition plan, and change management and communications initiatives. FY 2003/2004 research and development funds are being used to refine and implement the Enterprise Architecture. FY 2003 Operation and Maintenance funds are being used for salaries, facilities, supplies and program management support contracts and are expected to be fully obligated by September 2003.

The remaining unobligated FY 2002/2003 RDT&E funds of $5.8M million are planned for obligation as follows:

• Extension of architecture – $5.4 million	August 2003
• System Review and Architecture Support – $0.4 million	July 2003

The unobligated FY 2003/2004 RDT&E funds of $65.9 million are planned for obligation as follows:

• Business Process Reengineering and Extension of architecture – $63.9 million	August 2003 – March 2004
• Enterprise Architecture Integrator – $2.0 million	August 2003

The remaining FY 2003 O&M funds of $12.7 million are planned for obligation as follows:

• Functional Support to the Architecture – $2.1 million	July – August 2003
• System Review and Program Support – $3.0 million	August – September 2003
• Acquisition and Program Analysis Support – $3.0 million	August – September 2003
• Architecture Software Support – $1.5 million	September 2003
• Office Automation Equipment – $0.2 million	August 2003
• Research Support Service for Architecture – $0.1 million	July 2003
• Repository Data Storage and Operations – $1.9 million	August 2003
• Facility Space and Renovations – $0.9 million	August – September 2003

Contractual Progress and Performance Information

The following chart provides the Cost Performance Index (CPI) and Schedule Performance Index (SPI) for January 2003 through June 2003:

	Jan	Feb	Mar	Apr	May	Jun
◆ CPI	1.08	1.07	1.08	1.02	1.05	1.06
■ SPI	0.97	0.99	0.99	1.00	0.99	0.99
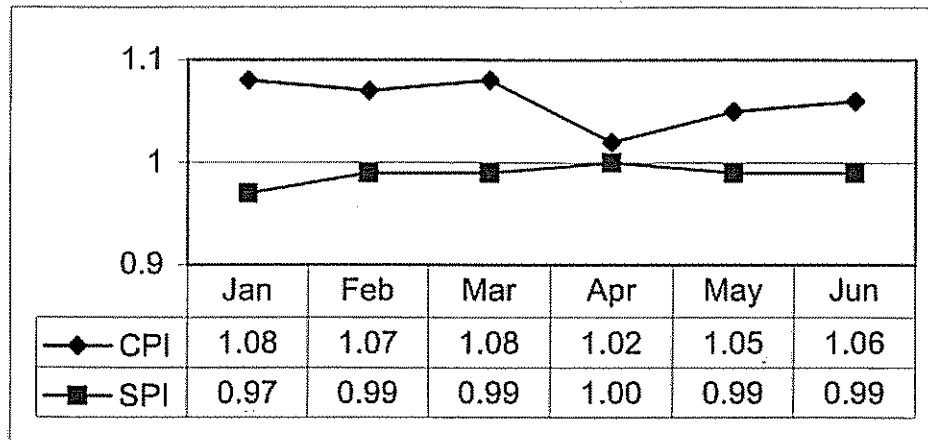
Contract costs are controlled via tracking of the CPI and SPI Earned Value Metrics (EVM).

- CPI is the ratio of budgeted cost of work performed to actual cost of work performed. As of June 2003, the contract has a CPI of 1.06, a .05 improvement from the December 2002 CPI as stated in the previous submission of this report. The CPI of 1.06 means the contractor is under-running budgeted cost by approximately six percent. It is anticipated the CPI will continue its shift to 1.00.

- SPI is the ratio of budgeted cost of work performed to budgeted cost of work scheduled. As of June 2003, the contract has an SPI of .99, which means the program is within one percent of being on schedule. This is a one percent improvement from the December 2002 SPI.